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SOME EASING IN THE RECESSION'S HOLD ON THE ECONOMY

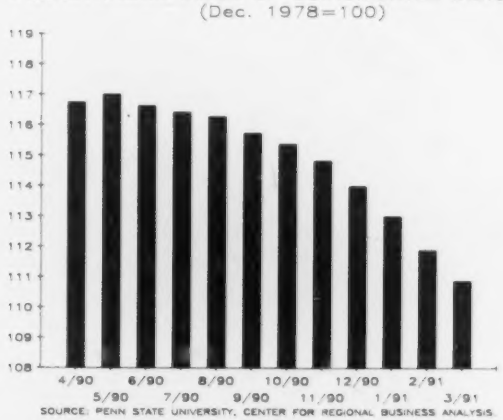
In last month's *Pennsylvania Business Survey*, some preliminary signs of easing in the rate of decline in the Commonwealth's economy were highlighted. Those signals have strengthened a bit, so some qualified optimism is indeed warranted. But it is important to keep in mind that the recession remains in place, both nationally and in Pennsylvania. A best-case scenario finds the economy holding steady in the months ahead. There are currently no signs of a pronounced recovery.

This recession was supposed to be different. It was expected to be short, shallow, and not be quite as hard on the goods producing sector as in recessions past. When all is said and done, the current slump will likely at least match the average length of post-World War II downturns — 11 months. Although not catastrophic, this recession has not been especially shallow, either. In addition, the goods producing sector, most notably construction and manufacturing, has been especially hard-hit, just as in previous downturns, although this is not to say that service-type industries have gone through unmarked.

Nationally, the current recession is estimated to be nine months old (the economy peaked around July of last year). Over that time frame, Pennsylvania's economy appears to have performed at a slight notch below the U.S. economy. The labor force situation, including employment and unemployment trends, worsened just a bit more in the Commonwealth relative to the nation as a whole (table). Nonfarm job growth in Pennsylvania, at an annual rate of 0.1 percent so far in this recession, comes in below the U.S.' 0.5 percent tally. Pennsylvania's retail sector has taken a harder hit than in the nation. While the U.S. coincidental index has declined 2.8 percent over the course of this recession, the Pennsylvania Index of Coincidental Indicators of economic activity has declined at an annual rate of 3 percent. As an aside, the PICI declined again in March, the tenth consecutive monthly drop (chart). Those with an optimistic slant to their analyses would point out that while the Commonwealth has apparently suffered slightly more during this recession than the nation, the shortfall is probably not nearly as pronounced as in previous economic downturns.

The "average" nature of this recession in Pennsylvania is also evident in comparisons with earlier slumps. **In general, the current downturn has probably not been quite as severe as the July 1981-November 1982 business slump, but it may be proving to be a bit stronger than the**

PENNSYLVANIA INDEX OF COINCIDENTAL INDICATORS
(Dec. 1978=100)



SOURCE: PENN STATE UNIVERSITY, CENTER FOR REGIONAL BUSINESS ANALYSIS

PA's performance during the current recession relative to the U.S.'
(annual percent change in selected economic indicators during the first nine months of recession)

	PA	U.S.
Labor force	0.1	0.5
Resident employment	−1.1	− 0.4
No. unemployed	22.6	17.0
Unemployment rate (level)	6.2	6.2
Nonfarm jobs	0.1	0.5
Real retail sales*	−8.2	− 3.7
Coincidental index*	−3.0	− 2.8

Source: U.S. Depts. of Labor and Commerce; PA Dept. of L & I; PSU, CRBA.
*eight months of data.

PA's performance during the current recession relative to previous recessions
(annual percent change in selected economic indicators during the first nine months of recession)

	Current recession	1981/1982 recession	1973-1974 recession
Labor force	0.1	0.4	0.9
Resident employment	−1.1	−1.4	0.9
No. unemployed	22.6	21.7	0.5
Unemployment rate (level)	6.2	9.6	4.8
Nonfarm jobs	0.1	−1.1	0.8
Manufacturing output	−2.4	−5.0	−0.6
Real retail sales*	−8.2	−3.8	n.a.
Construction contract valuations	−8.7	−2.9	−10.0
Coincidental index*	−3.0	−4.4	n.a.

Source: U.S. Depts. of Labor and Commerce; PA Dept. of L & I; F.W. Dodge; PSU, CRBA.
*eight months of data.

New Pennsylvania building permit authorizations (percent change from year ago)

	Apr.	Pct. chg.	Year-to-date	Pct. chg.
Residential	3,702	0.9	10,561	−14.8
Nonresidential	2,133	−3.0	5,002	− 8.9

Source: U.S. Dept. of Commerce, Bureau of the Census.

Pennsylvania existing home sales (seas. adj. ann. rate; thousands)

	Sales	Pct. change Qt. ago	Pct. change Yr. ago
1991:IQ	169.4	−33.6	−18.4
1990:IVQ	255.1	5.9	11.0

Source: National Association of Realtors.
Most recent data are preliminary.

November 1973-March 1975 recession (table).

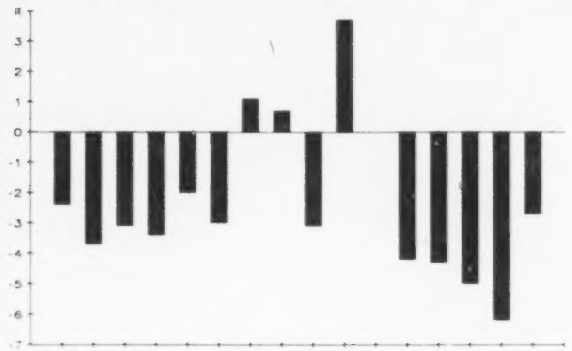
As far as current trends go, **April brought with it some improvement on the employment/unemployment front in Pennsylvania. On a seasonally adjusted basis, employment rose to a 1991 high during the month while the jobless rate declined for the first time this year. Most importantly, at least as far as future expectations go, initial claims for unemployment insurance, a leading indicator of jobless trends, fell.** Claims have been tracking erratically upward since 1989. These developments are certainly consistent with some easing in the recession's hold on the Pennsylvania economy.

Economic Activity in Pennsylvania	UNADJUSTED DATA 1991 Mar.	UNADJUSTED DATA 1991 Apr.	UNADJUSTED DATA 1990 Apr.	SEASONALLY ADJUSTED DATA 1991 Mar.	SEASONALLY ADJUSTED DATA 1991 Apr.	SEASONALLY ADJUSTED DATA 1990 Apr.	SEASONALLY ADJUSTED INDEXES (1977 = 100) 1991 Mar.	SEASONALLY ADJUSTED INDEXES (1977 = 100) 1991 Apr.	SEASONALLY ADJUSTED INDEXES (1977 = 100) 1990 Apr.
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)[1]	5,123*	5,141	5,167	5,162*	5,147	5,172	113.1	112.7	113.3
Service Producing									
No. of wage and salary jobs (thous.)	3,918*	3,929	3,901	3,932*	3,923	3,895	131.4*	131.1	130.2
Transportation and public utilities	268	268	265	269	268	264	102.7*	102.4	101.1
Wholesale trade	274	273	277	275	273	277	123.9	123.2	124.8
Retail trade	892*	893	891	909*	903	900	126.7*	125.9	125.5
Finance, insurance & real estate	299*	300	298	301	301	300	138.3*	138.5	137.9
Service & miscellaneous	1,468*	1,477	1,444	1,475*	1,474	1,440	171.1*	170.9	167.0
Federal government	136	136	147	136*	134	146	105.8*	104.6	113.7
State & local government	583*	582	580	571	569	567	97.9*	97.6	97.3
Goods Producing									
No. of wage and salary jobs (thous.)	1,204*	1,212	1,265	1,230	1,224	1,277	78.2*	77.8	81.1
Construction	204	213	220	225	221	227	122.4	119.9	123.6
Mining	26	26	28	26	26	28	55.0*	55.0	57.5
Manufacturing	975*	972	1,017	980*	977	1,021	73.0*	72.8	76.1
Durable goods	545*	544	577	548*	545	578	67.7*	67.3	71.4
Nondurable goods	430	429	440	432	432	443	81.1*	81.1	83.2
Ave. wkly. hrs. worked by prod. workers	40.1*	39.9	39.8	40.3*	40.2	40.1	102.1*	101.8	101.5
Total wkly. person-hours worked (mils.)	26.6*	26.5	27.9	26.9*	26.8	28.2	70.2*	69.8	73.4
Total wkly. payroll (mil. dols.)	300.4*	299.5	303.3	303.8*	303.4	307.2	135.2*	135.0	136.7
Average hourly earnings (dollars)	11.28	11.31	10.89	11.30	11.31	10.89	193.2*	193.3	186.1
Average weekly earnings (dollars)	452.33	451.27	433.42	454.60	455.83	437.89	196.5*	197.0	189.3
Steel production (thous. tons)	726	779	1,027	n.a.	n.a.	n.a.	30.9	32.2	42.3
Industrial electric power sales (mil. kwh)	3,582	3,648	3,713	3,561	3,734	3,775	96.4	101.1	102.2
Mining									
Anthracite coal (thous. net tons)	220	221	246	228	238	265	46.8	48.7	54.3
Bituminous coal (thous. net tons)	5,486	5,641	5,545	4,782	5,706	5,513	67.8	80.9	78.2
Construction contracts awarded (mil. dols.)									
Total	688.9	887.6	895.5*	643.1	834.7	878.6*	199.9	259.4	273.1*
Residential building	248.1	315.9	328.7*	225.2	270.2	290.7*	160.0	192.0	206.6*
Nonresidential building	312.6	314.5	340.3*	322.6	339.7	391.4*	297.4	313.1	360.8*
Nonbuilding (utilities and public works)	128.2	257.2	226.5*	95.3	224.8	196.5*	131.5	310.2	271.2*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,359	5,507	5,563	5,416	5,539	5,598	112.7	115.3	116.5
Unemployed									
No. of persons (thous.)	438	404	316	430	423	336	107.2	105.6	83.9
Rate (percentage of labor force)	7.6	6.8	5.4						
Rate, seasonally adjusted				7.4	7.1	5.6			
Civilian labor force, no. of persons (thous.)	5,797	5,911	5,878	5,846	5,963	5,934	112.3	114.5	114.0
Initial claims for unemployment benefits	109,651	115,010	88,941	128,804	118,977	96,358	90.0	83.1	67.3

Consumer Prices, all items	Urban Indexes (1982-84 = 100) 1991 Mar.	1991 Apr.	1990 Apr.	Percentage Change Month Ago	Year Ago
U.S. city average	135.0	135.2	128.9	0.1	4.9
Philadelphia	141.0	140.8	134.3	−0.1	4.8
Pittsburgh	n.a.	130.3	124.9	n.a.	4.3

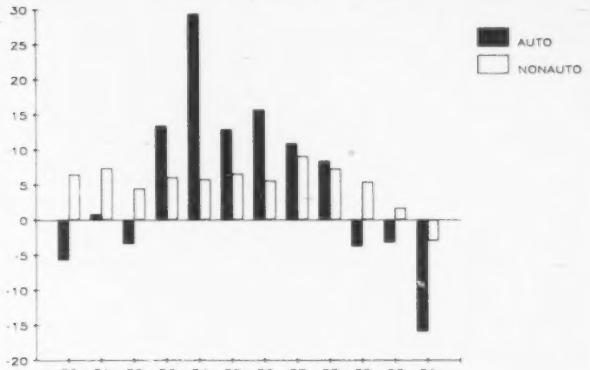
[1] Total includes workers on strike. * = figure revised & n.a. = data not available
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.

GROWTH IN PA MANUFACTURING OUTPUT
(annual percent change in the PMAI)



SOURCE: PENN STATE UNIVERSITY, CENTER FOR REGIONAL BUSINESS ANALYSIS

PA AUTO AND NONAUTO RETAIL SALES GROWTH
(annual percent change)



SOURCE: U.S. DEPT. OF COMMERCE; PSU, CTR. FOR REG. BUS. ANALYSIS.

The news is not quite as impressive on the nonfarm jobs front. While jobs did rise from 5.12 million in March to 5.14 million in April, the gain fell well short of that expected in light of past trends, resulting in the third consecutive seasonally adjusted month-to-month decline in nonagricultural jobs and the fourth drop in the past five months. Seasonally adjusted readings of service producing jobs have declined slightly in each of the past three months with retail trade accounting for much of the downtrend.

On a seasonally adjusted basis, construction jobs stand at their lowest reading since the final months of 1987. Again, though, there is some positive news in the most recent batch of construction-related statistics. **For just the second time since 1989, new residential housing units authorized by permit in April rose from a year ago,** although the month's slight 0.9 percent gain did little to offset weakness in previous months as year-to-date trends point to a 15 percent decline in permit activity. **Good news on the construction front is also found in the valuation of contract awards which were up in April in all three categories: residential, nonresidential, and nonbuilding projects.** Elsewhere in the goods producing sector, **April's drop in manufacturing output from the year-ago reading, as measured by the Pennsylvania Manufacturing Activity Index, was the smallest so far in 1991** (chart). Still, factory jobs remain on a downtrend.

Real estate activity in this year's first quarter was apparently unimpressive as sales of existing homes were off one-third from the previous three months and 18 percent from a year ago. Relative to trends in previous months, both declines were quite pronounced.

March readings of Pennsylvania retail activity remained soft. Weakness on the durable goods side resulted in a 5.7 percent retail sales decline in the first quarter relative to a year ago. While auto-related sales are off considerably this year, nonauto sales are also slumping. Indeed, growth in nonauto retail sales eased every year during the 1988-1990 period (chart). While auto sales are down more than 15 percent this year, sales on the nonauto side are down 3 percent. If such a trend continues, 1991 will bring with it the first such decline on record, stretching back to 1979. Registrations for new motor vehicles in Pennsylvania also continue to track down.

Clearly, recent readings of Pennsylvania economic growth and activity are sending mixed signals. Taken as a whole, trends suggest that the economy continues to track down. However, there are some exceptions to this trend (in the form of April's improvement in labor force developments, apparent improvement in construction activity, and an easing in the rate of decline in other economic measures), suggesting that the economy is in the process of firming. Some mildly encouraging developments in the national economy in recent weeks provide further evidence in support of such a scenario actually unfolding. Most importantly, those individual indicators which typically move in advance of the economy as a whole are starting to show some life. In fact, the Pennsylvania Index of Leading Indicators of economic activity has inched forward in recent months (chart), perhaps the

Pennsylvania retail sales
(millions of dollars; pct. chg. from year ago)

	March	Pct. chg.	Year-to-date	Pct. chg.
Total	6,655	– 3.0	17,886	– 5.7
Durables	2,106	– 13.6	5,515	– 18.3
Bldg. mat.	204	– 13.9	518	– 20.7
Auto dlrs.	1,309	– 10.3	3,329	– 15.9
Furniture	266	– 21.5	745	– 23.6
Other	327	– 18.5	923	– 20.9
Nondurables	4,549	2.8	12,371	1.3
Gen. mdse.	701	0.1	1,665	– 2.1
Food/grocery	1,550	10.3	4,258	6.2
Gas	409	1.5	1,192	2.0
Apparel	382	14.0	906	3.2
Eat/drink	693	– 15.0	1,900	– 14.6
Drugs	291	9.0	849	8.2
Other	523	4.2	1,601	10.3

Seas. adj. total: March 6,731
February 6,586

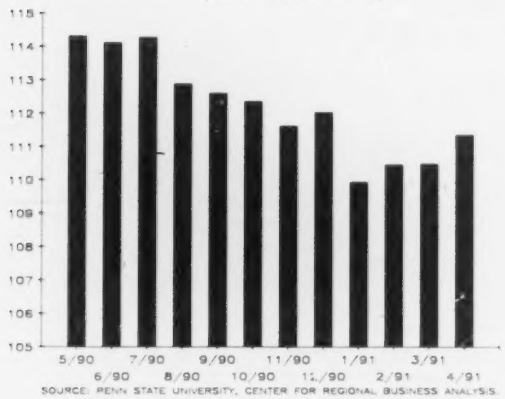
Source: Tot./Dur./Nondur.-U.S. Dept. of Commerce, Bur. of the Census. Seas. adj. total-PSU, Ctr. for Reg. Bus. Analysis.
Data in the sub-categories of the durable and nondurable groups are subject to relatively large sampling variability.

New Pennsylvania motor vehicle registrations
(percent change from year ago)

	Total registrations	Pct. change
March	44,399	– 9.7
1991 YTD	121,737	– 18.6
12-month total	584,617	– 11.6

Source: R.L. Polk & Co.

PENNSYLVANIA INDEX OF LEADING INDICATORS
(Dec. 1978=100)



SOURCE: PENN STATE UNIVERSITY, CENTER FOR REGIONAL BUSINESS ANALYSIS.

most encouraging sign that the worst of this recession is, or will soon be, behind us.

— William D. Anderson

Personal Income Report

A quick glance at even a small sample of the analyses contained in the *PBS* in recent years helps to identify several major trends which have helped to determine the course of economic growth and activity in the Commonwealth. Those trends have tended to revolve around such issues as the State's growth vs. the U.S.'; the geographic distribution of economic growth and activity within Pennsylvania; and the changes in the basic structure of the economy, both Statewide and on a regional basis. Both short- and long-term Pennsylvania personal income trends help shed considerable light on these developments. (Personal income represents the total of all income received by individuals and includes: wages and salaries; interest, dividend, and rent income; and transfer payments.)

In 1990, per capita, or average, personal income totaled $18,672 in the State. This represented a gain of 7.4 percent over 1989. Nationally, per capita income came in slightly higher, at $18,685, a gain of 6.2 percent over 1989. The mideast region as a whole which, in addition to Pennsylvania, includes Delaware, the District of Columbia, Maryland, New Jersey, and New York, saw per capita readings advance at a slightly slower 5.9 percent pace. The State's per capita income growth relative to the nation's has been quite impressive since the mid 1980s after falling short of national norms during the recessionary period during the early 1980s (chart).

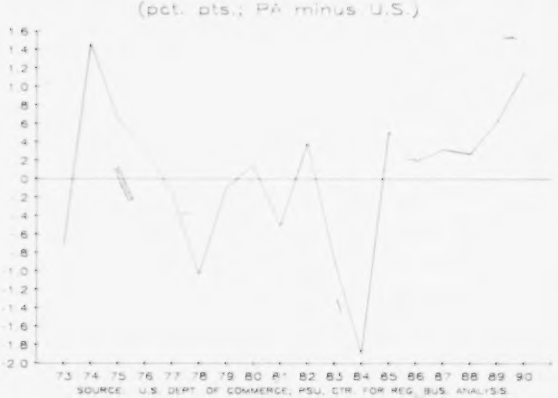
That, however, is only half the story. Much of the Commonwealth's improving performance with respect to per capita personal income in recent years was due to sluggish population growth (per capita readings are generated by simply dividing total income by population). During 1990, personal income came in at over $154.3 billion in Pennsylvania for a 5.5 percent annual gain. This fell somewhat short of the nation's 6 percent advance. This is not a recent development. Income growth in Pennsylvania failed to match national norms over the course of the 1983-1989 recovery period and was much more sluggish than the U.S. average

1990 per capita personal income

	Income (dollars)	Pct. chg. from 1989
Pennsylvania	18,672	7.4
United States	18,685	6.2
New England	22,146	2.5
Mideast	21,595	5.9
Great Lakes	18,359	6.2
Plains	17,663	8.0
Southeast	16,470	6.9
Southwest	16,377	7.4
Rocky Mountain	16,622	8.0
Far West	20,241	5.1

Source: U.S. Dept. of Commerce, Bur. of Econ. Analysis, Reg. Econ. Inf. System, April 1991.

PA AND U.S. PER CAPITA PERSONAL INCOME GROWTH DIFFERENTIALS
(pct. pts.; PA minus U.S.)

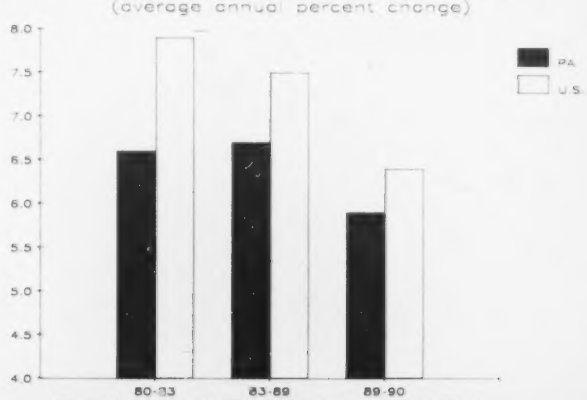


SOURCE: U.S. DEPT. OF COMMERCE; PSU, CTR. FOR REG. BUS. ANALYSIS.

during the 1980-1983 recessionary period (chart). Not surprisingly, growth was down in 1990 from previous years as economic sluggishness and recession settled in the Commonwealth. Between 1980 and 1990, only 17 states (plus the District of Columbia) realized slower growth in personal income than did Pennsylvania (chart).

Personal income data are available through 1989 for the State's counties and metro areas. Within the Commonwealth's 15 metro regions, State College, Lancaster, and Reading realized the strongest gains from 1988 in total income. The three weakest were Beaver County, Williamsport, and Pittsburgh. Income growth in metro counties in

PA AND U.S. PERSONAL INCOME GROWTH
(average annual percent change)



SOURCE: U.S. DEPT. OF COMMERCE; PSU, CTR. FOR REG. BUS. ANALYSIS.

1990 personal income by major source: Pennsylvania and the United States (millions of dollars)

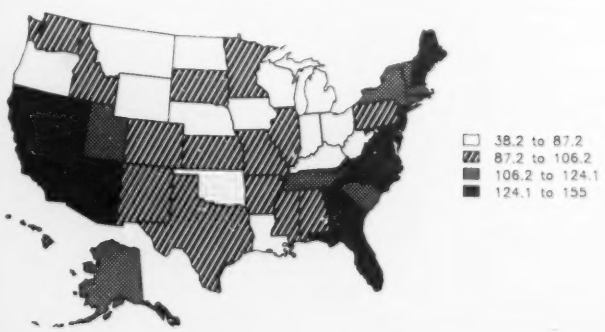
	Pennsylvania		U.S.
	1990	Pct. chg. from 1989	Pct. chg. from 1989
Earnings by place of work	154,337	5.5	6.0
By type			
Wage and salary disbursements	123,611	5.4	5.7
Other labor income	12,804	6.0	6.7
Proprietors income	17,923	5.8	7.1
By industry			
Farm	1,298	21.5	9.8
Nonfarm	153,039	5.4	5.9
Private	133,054	4.9	5.6
Ag. serv., for., fish., and other	654	6.2	4.3
Mining	1,514	9.3	8.9
Construction	9,225	- 3.5	- 0.1
Manufacturing	33,964	1.4	2.4
Nondurable goods	13,583	5.1	4.2
Durable goods	20,382	- 1.0	1.2
Transportation and public utilities	10,245	6.7	6.7
Wholesale trade	9,473	2.8	3.1
Retail trade	14,379	3.8	3.6
Finance, insurance, and real estate	9,692	7.3	6.7
Services	43,908	9.7	10.2
Government	19,985	8.4	7.6
Federal, civilian	4,631	4.4	5.8
Federal, military	751	9.2	2.6
State and local	14,603	9.7	8.7
Total personal income	221,850	5.9	6.4
Nonfarm personal income	220,552	5.9	6.4
Net earnings[1]	143,244	5.5	6.0
Dividends, interest and rent	40,121	6.2	5.9
Transfer payments	38,486	7.6	9.1

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System, April 1989.

[1]Total earnings by place of work less personal contributions for social insurance plus an adjustment for residence.

1989 was slightly below that for non-metropolitan Pennsylvania (7.55 vs. 7.61 percent). This represented a reversal from the previous five years when growth averaged 6.6 percent in metropolitan portions of the Commonwealth and 5.9 percent in non-metro regions. Not surprisingly, of the 12 counties which maintained per capita income readings above the Statewide average in 1989, only one (Montour) was not part of an officially-designated metro area. (One might think that there should be a more even distribution between above- and below-average counties in terms of per capita personal income. However, because, at most, several counties such

1980-1990 PERSONAL INCOME GROWTH
(percent)



SOURCE: U.S. DEPT. OF COMMERCE; PSU, CTR. FOR REG. BUS. ANALYSIS.

1989 total and per capita personal income: Pennsylvania metropolitan areas and counties

	Total personal income (millions of dollars)		Per capita personal income (dollars)	
	1989	Pct. chg. from 1988	1989	Pct. of PA ave. 1989
MSAs				
A'town-Beth MSA*	12,537	7.6	18,294	105.2
Carbon	812	6.8	14,284	82.2
Lehigh	5,488	7.9	18,822	108.3
Northampton	4,332	8.2	17,500	100.6
Altoona MSA (Blair)	1,810	7.2	13,685	78.7
Beaver MSA (Beaver)	2,641	5.9	14,046	80.8
Erie MSA (Erie)	4,235	7.6	15,332	88.2
H'burg-Leb-Carl MSA	10,040	8.3	16,830	96.8
Cumberland	3,532	8.4	17,873	102.8
Dauphin	4,152	7.9	17,158	98.7
Lebanon	1,774	8.4	15,405	88.6
Perry	582	9.6	13,931	80.1
Johnstown MSA	3,300	7.5	13,276	76.4
Cambria	2,246	7.3	13,337	76.7
Somerset	1,053	7.8	13,146	75.6
Lanc MSA (Lancaster)	7,467	8.7	17,645	101.5
Philadelphia MSA*	97,903	7.4	19,750	113.6
Bucks	11,368	7.9	20,534	118.1
Chester	8,489	9.2	22,491	129.4
Delaware	12,246	7.7	21,991	126.5
Montgomery	18,067	7.8	25,989	149.5
Philadelphia	25,474	6.4	15,479	89.0
Pittsburgh MSA	36,912	7.0	17,763	102.2
Allegheny	25,853	7.2	19,249	110.7
Fayette	1,948	6.7	12,930	74.4
Washington	3,203	6.7	15,436	88.8
Westmoreland	5,909	6.3	15,681	90.2
Reading MSA (Berks)	6,339	8.4	19,068	109.7
Scr-Wilkes-Barre MSA	11,500	7.7	15,519	89.3
Columbia	866	7.7	14,230	81.8
Lackawanna	3,549	7.6	16,003	92.0
Luzerne	5,104	7.4	15,423	88.7
Monroe	1,568	9.3	15,874	91.3
Wyoming	412	6.7	14,388	82.8
Sharon MSA (Mercer)	1,744	8.1	14,322	82.4
St Coll MSA (Centre)	1,781	9.7	15,345	88.3
W'port MSA (Lycoming)	1,795	6.9	15,106	86.9
York MSA	7,556	7.4	18,166	104.5
Adams	1,235	7.7	16,326	93.9
York	6,321	7.3	18,575	106.8
Non-MSA counties				
Armstrong	1,146	7.3	14,750	84.8
Bedford	583	7.2	12,116	69.7
Bradford	892	9.3	13,789	79.3
Butler	2,410	7.9	15,619	89.8
Cameron	86	6.2	13,547	77.9
Clarion	559	8.1	13,485	77.6
Clearfield	1,079	6.4	13,275	76.4
Clinton	474	5.8	12,465	71.7
Crawford	1,188	8.4	13,935	80.1
Elk	560	6.5	15,353	88.3
Forest	60	7.1	12,671	72.9
Franklin	1,848	8.5	15,255	87.7
Fulton	190	11.1	13,066	75.1
Greene	478	7.9	12,166	70.0
Huntingdon	513	8.0	11,872	68.3
Indiana	1,181	5.9	12,863	74.0
Jefferson	653	6.7	13,747	79.1
Juniata	291	7.0	14,281	82.1
Lawrence	1,373	7.2	13,716	78.9
McKean	652	6.4	14,323	82.4
Mifflin	600	7.9	12,810	73.7
Montour	304	8.2	18,460	106.2
Northumberland	1,347	7.1	13,759	79.1
Pike	489	10.1	16,903	97.2
Potter	220	7.3	12,270	70.6
Schuylkill	2,315	7.0	15,115	86.9
Snyder	609	8.4	16,626	95.6
Sullivan	82	6.5	12,693	73.0
Susquehanna	540	7.8	13,061	75.1
Tioga	506	7.9	12,559	72.2
Union	528	9.5	15,053	86.6
Venango	928	7.3	15,359	88.3
Warren	708	8.4	15,637	89.9
Wayne	609	8.8	14,765	84.9
Pennsylvania	209,393	7.6	17,387	100.0

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System, April 1990.

* Includes New Jersey counties contained in the MSA.

as Allegheny and those in the suburban fringe of Philadelphia tend to account for such large shares of total personal income and population in Pennsylvania, the distribution is "skewed" in the direction of these several counties.)

Much has been made in recent years of the east/west split in economic growth in Pennsylvania. Throughout the 1980s, the eastern half of the Commonwealth, especially the southeast, tended to outperform those counties to the west, regardless of the economic measure used. However, recent trends suggest a reversal in this long-term trend (see the May issue of the *Survey* for a more detailed discussion). Western Pennsylvania appears to be holding up relatively well during this current recession. One reason for this may be that goods producing industries, which tend to be hardest hit during recessions, are playing a larger and larger role in the economy of southeastern Pennsylvania, at least relative to the southwest. More specifically, while the share of overall economic activity accounted for by goods producing industries has been on the decline throughout the State, this sector is still more important in some regions and counties, especially in the southeast, than in others.

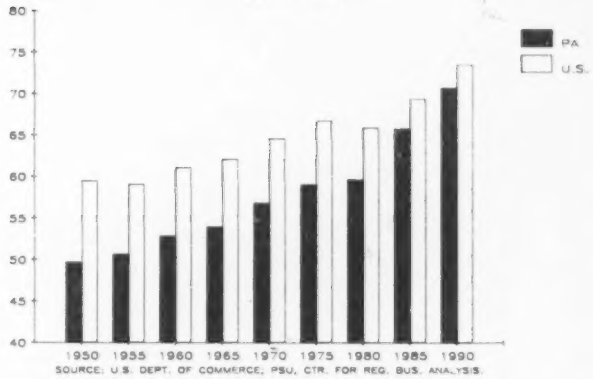
To illustrate, the share of earnings accounted for by the goods producing sector in the Pittsburgh metro area was 2.4 percent above the Statewide average in 1979 (table). In 1989, the sector's share was 15.6 percent below the Pennsylvania norm. In Lancaster, on the other hand, the share rose from 25.9 percent above average to 47.6 percent above average. Each of the five metro areas in the southeast saw their "relative shares" rise during the decade while three of the five southwestern regions witnessed a decline. (This idea of a "relative share" is identical to that for a "location quotient," an analytical tool often used by regional economists.) In sum, those that talk about the "manufacturing" based economy of southwestern Pennsylvania have not taken into account recent trends which have apparently altered the economy's structural characteristics. (As an aside, the argument presented above does not hold for the Erie and Sharon metropolitan areas. Despite declines in the share of earnings

Goods producing's share of earnings by metro area

	Relative share (expressed as a percent of PA)		1979-1989 percent change in relative share
	1979	1989	
Southwest			
Altoona	76.3	88.6	16.1
Beaver	167.6	109.8	-34.5
Johnstown	120.2	103.3	-14.1
Pittsburgh	102.4	84.4	-17.6
State College	66.8	76.2	14.1
Northwest			
Erie	125.9	133.9	6.4
Sharon	124.1	130.0	4.8
Northeast			
Allentown-Bethlehem	130.2	128.7	- 1.2
Scranton-Wilkes-Barre	96.8	102.3	5.7
Williamsport	114.9	131.9	14.8
Southeast			
Harrisburg-Lebanon-Carlisle	75.6	82.4	9.0
Lancaster	125.9	147.6	17.2
Philadelphia	80.2	85.0	6.0
Reading	119.3	136.5	14.4
York	127.8	147.9	15.7

Source: U.S. Dept. of Commerce; PSU, Ctr. for Reg. Bus. Analysis.

SERVICE PRODUCING'S SHARE OF EARNINGS: PA AND THE U.S.
(percent)



SOURCE: U.S. DEPT. OF COMMERCE; PSU, CTR. FOR REG. BUS. ANALYSIS.

accounted for by the goods producing industries, the share was still approximately one-third higher than the State's average, hence, the relative shares in the neighborhood of 130+ in 1989. Still the economy in northwestern Pennsylvania has held up quite nicely during the course of this recession. Perhaps the structure of the goods producing sector, itself, found in these two regions helps account for the rather impressive economic showing of late.)

While some regions obviously remain more heavily based in the goods producing industries than others, the trend Statewide is towards an economy more heavily concentrated in service producing activities. For instance, service producing industries accounted for slightly less than one-half of all earnings in 1950 in Pennsylvania (chart). By 1990, that share had risen to over 70 percent. Furthermore, the gap between the State and the U.S. is narrowing. Whereas, 40 years ago, service producing's earnings share was 10 percentage points less than the nation's, it stood just 3 points below the national average in 1990.

In sum, recent personal income trends are consistent with the scenario which has been illustrated in the *Pennsylvania Business Survey* over the course of the past several years. The Commonwealth's economy did grow from the early 1980s to the onset of the current recession, but its relative showing was somewhat suspect. Economic growth and activity has not been evenly distributed across the Commonwealth. Finally, the Pennsylvania economy is becoming more and more service-oriented in nature, though the potential role played by the factory sector in shaping the economy should not be under-estimated.

— William D. Anderson

Building Permits Report

1990 brought with it additional declines in building activity throughout much of the Commonwealth, though there were a few bright spots. New projects authorized by permit continued to decline on both the residential and nonresidential sides as the economic recession delivered a pretty hefty blow to the construction industry in the State. This recession unfolded in a manner very similar to that in previous downturns as the goods producing sector, which is dominated by construction and manufacturing, was hit the hardest, both

nationally and in Pennsylvania.

New housing units authorized by permit were down 18.2 percent in 1990 as they totaled 37,204. Declines were widespread as both single-and multi-family permitted projects were off from year-ago tallies. Single-family permits were off 17.6 percent while multi-family authorizations declined 21.2 percent. 1990 marked the third consecutive year of decline in residential permit activity. Over that period, the decline has gradually worsened. For the second year in a row, new authorizations were down a bit more in Pennsylvania than in the U.S., which realized a 17 percent decline in 1990 (chart). Over the course of the 1984-1988 period, the Commonwealth tended to outperform the nation on the housing front, at least according to these data. Declines in housing activity in both 1989 and 1990 were in line with those from the previous recessionary period in the early 1980s in Pennsylvania.

Statewide, new residential projects authorized by permit were valued at $2.9 billion, a 15.4 percent decline from 1989. While average permit values are not necessarily representative of market prices, growth rates in average valuations *may* be reflective of price trends in the market. Indeed, the increase in the average permit value for single-family homes eased in each of the past three years, further evidence of the sluggish nature of building activity during that period (chart). Still, 1990's gain slightly exceeded that for the U.S. In fact, except for 1989, the increase in the average single-family permit value in Pennsylvania has exceeded the national gain every year since 1985.

Weakness in residential building activity was scattered across the Commonwealth, especially in those counties included in officially-designated metropolitan areas, and was not confined to one specific region. Single-family authorizations were down from 1989 readings in ten of the State's 15 metro areas. All told, 22 of the 33 counties included in metropolitan Pennsylvania turned in declines. Especially large gains were turned in by the Sharon and Erie metro areas in the northwest and by Beaver County (chart). Reading,

New authorized construction in permit issuing places in PA (res. authorizations in units; nonres. authorizations in bldgs.; value in thousands of dollars)

	Authorizations		Value	
	1990	Pct. chg. from 1989	1990	Pct. chg. from 1989
Residential	37,204	-18.2	2,895,675	-15.4
Single-family	31,037	-17.6	2,640,272	-14.8
2 units	574	- 1.4	25,026	0.2
3-4 units	722	-20.7	28,807	-38.5
5+ units	4,871	-23.1	201,570	-21.0
Nonresidential	20,079	-10.3	2,203,903	3.4
Amusement	207	3.0	46,522	25.3
Religious	105	-16.0	43,463	-11.2
Industrial	650	-25.2	429,060	8.2
Parking garages	35	- 5.4	42,524	16.9
Service stations	221	-17.5	22,367	-29.2
Hospitals	105	19.3	145,398	43.7
Offices	605	-23.2	614,257	5.3
Public works	182	2.2	137,163	-35.4
Schools	102	- 3.8	63,800	1.7
Stores	1,170	-19.4	510,467	14.0
Other buildings	11,590	0.0	105,378	-11.1
Non-building	5,107	-23.6	43,504	-20.7

Source: U.S. Dept. of Commerce, Bur. of the Census.

New authorized nonresidential construction in permit issuing places by metropolitan statistical area and county (authorizations in no. of bldgs.; value in dollars)

	Authorizations		Value	
	1990	Pct. chg. from 1989	1990	Pct. chg. from 1989
MSAs				
A'town-Beth MSA	1,730	- 6.9	133,367,675	18.6
Carbon	148	32.1	34,606,789	681.2
Lehigh	737	-10.4	48,651,178	- 15.6
Northampton	845	- 8.5	50,109,708	- 0.7
Altoona MSA (Blair)	237	37.0	10,758,254	- 36.2
Beaver MSA (Beaver)	315	1.9	67,154,132	605.3
Erie MSA (Erie)	540	0.7	31,518,380	39.8
H'burg-Leb-Carl MSA	1,239	-17.5	202,469,745	- 9.7
Cumberland	533	7.0	74,084,975	66.0
Dauphin	502	-23.7	115,824,595	- 15.3
Lebanon	76	-65.0	11,033,640	- 73.0
Perry	128	- 0.8	1,526,535	- 24.1
Johnstown MSA	368	3.1	111,317,489	- 43.4
Cambria	187	0.5	82,772,089	- 54.9
Somerset	181	5.8	28,545,400	116.7
Lanc MSA (Lancaster)	1,238	-14.4	141,062,709	24.7
Philadelphia MSA	4,400	-11.1	681,150,545	7.2
Bucks	1,485	- 4.7	73,726,776	- 34.3
Chester	1,097	- 8.5	88,547,679	- 30.4
Delaware	406	-27.2	40,692,776	- 65.9
Montgomery	1,264	-14.2	424,352,023	122.4
Philadelphia	148	- 8.1	53,831,291	- 37.4
Pittsburgh MSA	2,130	- 8.7	290,292,106	14.6
Allegheny	1,070	- 8.4	136,744,208	- 18.9
Fayette	210	-12.1	30,476,679	195.5
Washington	387	- 5.6	16,955,840	- 23.6
Westmoreland	463	-10.3	106,115,379	102.9
Reading MSA (Berks)	458	-36.1	69,892,420	33.1
Scr-Wilkes-Barre MSA	1,162	- 6.0	111,042,202	- 3.4
Columbia	119	8.2	5,952,472	31.6
Lackawanna	217	-20.5	24,849,883	- 0.9
Luzerne	296	-34.9	51,638,686	- 18.8
Monroe	515	40.3	27,647,097	32.6
Wyoming	15	-51.6	954,064	6.6
Sharon MSA (Mercer)	306	4.8	18,904,054	15.1
St Coll MSA (Centre)	257	- 5.5	26,842,013	- 27.7
W'port MSA (Lycoming)	300	- 9.1	11,041,965	- 46.7
York MSA	1,594	-10.2	72,803,067	- 20.8
Adams	245	-10.9	11,200,971	- 14.5
York	1,349	-10.1	61,602,096	- 21.8
Non-MSA counties				
Armstrong	56	-44.0	949,315	- 65.5
Bedford	121	-10.4	2,656,223	- 26.8
Bradford	161	-38.1	18,929,437	155.3
Butler	351	- 1.4	21,427,397	- 44.8
Cameron	18	- 5.3	986,383	38.5
Clarion	40	-42.0	2,445,691	157.1
Clearfield	34	-38.2	1,238,865	- 68.1
Clinton	71	1.4	1,937,358	- 9.0
Crawford	380	- 6.9	17,224,354	26.3
Elk	135	-16.7	1,657,511	- 72.5
Forest	3	-50.0	650,075	755.4
Franklin	236	8.8	25,859,020	40.8
Fulton	82	28.1	1,080,670	- 37.6
Greene	12	71.4	461,630	1417.8
Huntingdon	94	3.3	2,490,235	- 56.1
Indiana	56	16.7	3,557,539	- 28.7
Jefferson	108	- 2.7	7,150,490	35.1
Juniata	48	-22.6	1,003,894	- 52.9
Lawrence	120	- 7.0	6,049,692	- 49.1
McKean	81	-23.6	13,305,434	221.3
Mifflin	123	13.9	4,540,813	50.1
Montour	19	46.2	10,382,700	682.3
Northumberland	141	-14.0	9,756,751	- 52.4
Pike	150	-36.7	2,170,547	- 71.9
Potter	69	- 1.4	4,100,447	644.3
Schuylkill	179	20.9	13,797,122	26.7
Snyder	127	- 4.5	2,414,824	- 39.5
Sullivan	33	-17.5	812,774	25.0
Susquehanna	78	-23.5	2,127,249	20.1
Tioga	238	- 6.7	3,622,028	- 13.9
Union	96	4.3	10,352,583	123.7
Venango	34	-46.9	6,144,681	- 13.9
Warren	144	-14.8	11,655,849	228.3
Wayne	193	-17.9	13,728,294	23.0

Source: U.S. Dept. of Commerce, Bur. of the Census.

New authorized residential construction in permit issuing places by metropolitan statistical area and county (authorizations in units; value in dollars)

	Total				Single-family			
	Authorizations		Value		Authorizations		Value	
	1990	Pct. chg. from 1989	1990	Pct. chg. from 1989	1990	Pct. chg. from 1989	1990	Pct. chg. from 1989
MSAs								
A'town-Beth MSA	1,924	-20.8	162,923,239	-20.9	1,658	-17.9	153,560,901	-19.7
Carbon	167	-34.8	13,809,840	-30.6	167	-28.6	13,809,840	-29.1
Lehigh	782	-31.5	72,055,980	-26.4	706	-26.1	70,737,980	-22.5
Northampton	975	-5.4	77,057,419	-12.7	785	-5.5	69,013,081	-14.3
Altoona MSA (Blair)	337	-1.7	20,937,725	6.5	286	4.4	18,729,725	3.9
Beaver MSA (Beaver)	470	9.0	41,148,503	27.4	449	22.7	39,993,503	34.6
Erie MSA (Erie)	678	-27.2	44,215,106	-12.3	593	8.6	41,546,426	19.8
H'burg-Leb-Carl MSA	2,988	-8.3	207,242,165	-6.9	2,454	-11.5	189,590,371	-6.5
Cumberland	1,288	-5.4	93,611,597	-0.7	1,100	4.9	88,384,690	8.1
Dauphin	1,097	-0.9	77,217,525	-7.8	824	-23.7	67,908,351	-18.5
Lebanon	403	6.9	25,843,643	20.3	354	42.2	23,399,930	46.4
Perry	200	-51.3	10,569,400	-54.1	176	-55.4	9,897,400	-54.7
Johnstown MSA	435	-6.7	26,386,009	-1.9	367	-10.9	23,737,562	-3.1
Cambri	253	24.6	15,398,802	12.0	209	15.5	13,684,802	8.6
Somerset	182	-30.8	10,987,207	-16.4	158	-31.6	10,052,760	-15.5
Lanc MSA (Lancaster)	2,692	-13.9	192,580,099	-19.5	1,958	-17.9	161,319,094	-18.6
Philadelphia MSA	7,999	-30.0	703,044,091	-26.4	6,495	-28.6	627,560,260	-26.8
Bucks	2,225	-26.2	186,610,885	-18.9	1,897	-20.4	168,528,960	-19.4
Chester	1,819	-42.6	202,217,183	-37.1	1,674	-34.8	195,618,793	-33.8
Delaware	641	-41.8	61,276,029	-33.0	523	-34.1	51,420,939	-29.4
Montgomery	2,567	-27.6	206,735,151	-22.3	2,222	-24.5	194,907,541	-19.6
Philadelphia	747	24.5	46,204,843	0.0	179	-55.7	17,084,027	-54.2
Pittsburgh MSA	4,417	-5.3	416,957,971	0.5	3,634	-4.2	382,135,246	-0.3
Allegheny	2,430	-15.0	253,065,198	-8.5	1,857	-10.4	224,802,161	-9.2
Fayette	300	7.9	13,648,206	-1.7	202	-23.2	10,948,206	-18.8
Washington	587	6.3	52,307,715	26.3	540	5.3	50,840,715	24.7
Westmoreland	1,100	12.6	97,936,852	18.2	1,035	9.5	95,544,164	17.3
Reading MSA (Berks)	1,401	-34.1	102,899,074	-32.8	1,171	-36.1	95,577,079	-32.0
Scr-Wilkes-Barre MSA	3,619	-26.2	267,334,254	-23.7	3,067	-27.8	246,927,998	-23.4
Columbia	93	-18.4	5,015,103	-18.7	88	-18.5	4,863,103	-19.4
Lackawanna	638	-18.7	43,095,258	-25.2	529	-23.6	39,338,996	-28.3
Luzerne	1,210	-8.5	79,930,361	-6.7	860	-18.6	68,289,261	-7.9
Monroe	1,626	-37.8	136,484,244	-30.9	1,541	-34.0	131,777,350	-28.3
Wyoming	52	-25.7	2,809,288	-23.3	49	-12.5	2,659,288	-18.3
Sharon MSA (Mercer)	272	43.2	16,897,781	44.3	266	64.2	16,725,281	52.8
St Coll MSA (Centre)	807	-2.1	52,352,705	-11.8	408	-17.7	36,325,179	-11.1
W'port MSA (Lycoming)	315	-40.8	17,345,377	-33.4	275	3.0	16,510,377	-11.9
York MSA	2,637	-13.1	199,561,325	-8.6	2,439	-11.5	190,428,939	-7.6
Adams	654	-7.2	45,911,670	-3.3	654	1.4	45,911,670	1.8
York	1,983	-14.8	153,649,655	-10.1	1,785	-15.4	144,517,269	-10.2
Non-MSA counties								
Armstrong	62	-31.9	4,395,715	1.0	62	0.0	4,395,715	25.0
Bedford	129	0.0	6,373,086	6.2	129	0.0	6,373,086	6.2
Bradford	101	-15.8	5,887,048	-17.3	93	-13.9	5,523,523	-21.5
Butler	932	3.3	84,739,158	5.9	810	7.1	79,874,499	8.5
Cameron	15	66.7	1,156,105	85.4	15	66.7	1,156,105	85.4
Clarion	71	36.5	4,144,274	57.7	71	54.3	4,144,274	63.3
Clearfield	105	28.0	7,879,641	48.0	105	41.9	7,879,641	52.6
Clinton	100	25.0	4,355,521	3.1	53	-7.0	2,729,521	-6.5
Crawford	212	22.5	9,663,900	29.3	160	-0.6	7,930,715	17.9
Elk	117	34.5	5,818,688	26.5	79	2.6	4,676,212	6.6
Forest	15	7.1	766,080	62.4	15	7.1	766,080	62.4
Franklin	310	-18.0	22,715,840	-10.0	310	-18.0	22,715,840	-10.0
Fulton	40	2.6	1,933,000	-16.2	40	2.6	1,933,000	-16.2
Greene	14	75.0	623,000	36.4	14	75.0	623,000	36.4
Huntingdon	158	-3.1	7,764,630	33.6	158	-0.6	7,764,630	37.7
Indiana	159	101.3	12,397,200	64.6	103	58.5	9,923,200	46.2
Jefferson	80	-12.1	4,005,300	-11.5	80	-12.1	4,005,300	-11.5
Juniata	109	39.7	4,779,117	49.4	79	19.7	4,085,617	38.8
Lawrence	351	36.0	17,024,871	52.9	184	35.3	12,034,871	51.0
McKean	55	-8.3	2,955,786	-8.2	55	-8.3	2,955,786	-8.2
Mifflin	165	27.9	8,759,688	37.0	159	27.2	8,599,688	37.8
Montour	113	-44.6	7,111,343	-11.0	111	-45.6	7,051,343	-11.7
Northumberland	172	-27.4	9,251,493	-14.2	170	-12.8	9,201,493	-4.7
Pike	1,053	-29.8	94,256,169	-21.5	1,044	-26.3	93,509,529	-19.7
Potter	42	-2.3	1,056,790	-12.0	42	-2.3	1,056,790	-12.0
Schuylkill	233	-14.0	14,309,487	-15.7	213	-20.8	13,644,487	-19.3
Snyder	85	16.4	6,035,981	29.8	81	11.0	5,935,981	27.6
Sullivan	64	-8.6	3,396,918	-0.3	64	-8.6	3,396,918	-0.3
Susquehanna	159	-9.1	11,912,401	40.7	159	-5.4	11,912,401	42.5
Tioga	180	-3.7	7,393,136	-6.9	176	-4.9	7,293,136	-7.5
Union	160	10.3	9,810,224	4.1	100	-28.1	7,605,696	-17.1
Venango	69	40.8	2,983,021	31.9	65	32.7	2,911,021	28.7
Warren	75	-22.7	3,743,002	-3.0	75	-5.1	3,743,002	13.4
Wayne	546	-27.2	37,042,750	-27.0	481	-35.7	34,842,750	-31.3

Source: U.S. Dept. of Commerce, Bur. of the Census.

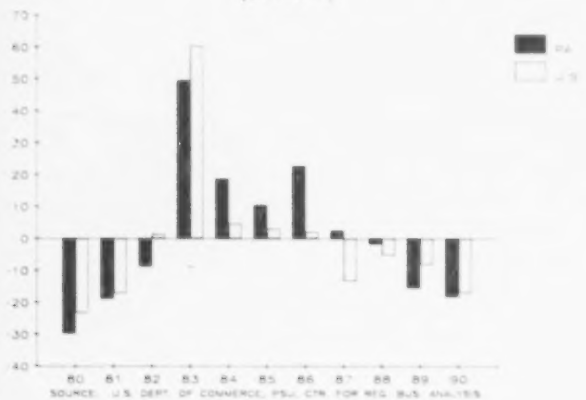
Philadelphia, and Scranton-Wilkes-Barre were home to the largest declines. Of the Commonwealth's 34 non-metro counties, 18 were home to declines in single-family residential permits last year.

A comparison of average single-family permit values, which are a very rough approximation of marketplace trends, suggests that the State's most populous metropolitan areas, including Pittsburgh, Philadelphia, and Allentown-Bethlehem, were home to the highest valuations in 1990. The relatively small Williamsport, Sharon, and Johnstown regions were home to the lowest valuations (chart).

On the nonresidential side, the number of new projects authorized by permit last year was down 10.3 percent, although there was a slight 3.4 percent increase in total valuations. There were 20,079 nonresidential projects authorized by permit in Pennsylvania during 1990. Authorizations were off in the neighborhood of 20-25 percent in each of the three largest categories: stores, industrial buildings, and office buildings.

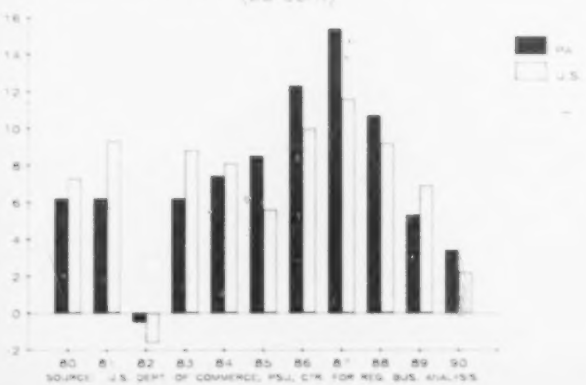
Declines in nonresidential activity were even more widespread than on the residential side. Of the State's 33 metro area counties, 23 authorized fewer nonresidential projects during 1990. Twenty-four of Pennsylvania's 34 non-metro counties were home to declines in nonresidential permit activity.

PA AND U.S. HOUSING PERMIT GROWTH
(percent)



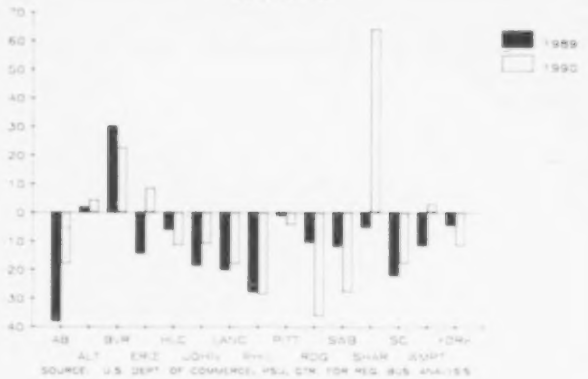
SOURCE: U.S. DEPT. OF COMMERCE, PSU. CTR. FOR REG. BUS. ANALYSIS

PA AND U.S. GROWTH IN SINGLE-FAMILY AVERAGE PERMIT VALUES
(percent)



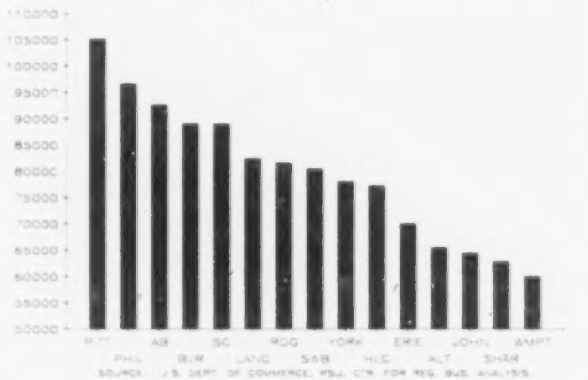
SOURCE: U.S. DEPT. OF COMMERCE, PSU. CTR. FOR REG. BUS. ANALYSIS

1989 AND 1990 GROWTH IN SINGLE-FAMILY PERMITS BY METRO AREA
(percent)



SOURCE: U.S. DEPT. OF COMMERCE, PSU. CTR. FOR REG. BUS. ANALYSIS

1990 AVERAGE SINGLE-FAMILY PERMIT VALUE BY METRO AREA
(dollars)



SOURCE: U.S. DEPT. OF COMMERCE, PSU. CTR. FOR REG. BUS. ANALYSIS

There are some preliminary signs that perhaps the worst is over for the construction industry in Pennsylvania, at least on the housing side of the ledger. The rate of decline in residential permit activity has eased a bit in recent months. So, while there is unlikely to be a significant recovery in residential activity, the rather worrisome performance turned in during 1989 and 1990 may not be repeated in the current year. Nationally, the construction sector has often led the economy out of recession. The forecast for a relatively weak rebound in construction activity is certainly consistent with the weak overall economic recovery which is so widely expected by forecasters.

— William D. Anderson

Focus on the U.S. Economy

Those involved in the publication of the Pennsylvania Business Survey *are constantly striving for consistency in reporting on economic conditions and trends as they relate to the Commonwealth. As a result, several dominant or overriding themes are often used as reference points and serve as common denominators in our analyses. Several times in the past, the ties between the Pennsylvania and U.S. economies have been highlighted. In order to keep readers updated on all factors having an impact on Statewide economic con-*

ditions, it is felt that it is worthwhile to provide a thorough overview of U.S. economic conditions on a periodic basis. This represents the fourth consecutive year that the June issue of the Survey *focuses in on the national economy.*

Economists from four leading banks in Pennsylvania have agreed to provide commentary on U.S. economic conditions. The views expressed below are those of the contributors and do not reflect those of The Pennsylvania State University or the individual financial institutions. The Center for Regional Business Analysis gratefully acknowledges the contributions of each of the participants.

Jake Haulk, Vice President and Senior Economist, Mellon Bank, N.A., Pittsburgh, Pennsylvania.

The recession is showing signs of bottoming out and the odds continue to favor a sluggish recovery beginning around mid-year. In the housing market, for example, activity is slowly climbing out of the cellar. There are also indications that the recession is losing its grip on the manufacturing sector. Likewise, there are some encouraging signs that the slide in consumer spending that accounted for roughly 70 percent of the decline in real GNP since last fall has almost run its course. The prospect of a steadier pace of consumer spending and residential construction activity suggests that the liquidation of excess inventories will shortly become much less of a depressant on overall economic activity.

Even though there are some persuasive signs that the decline is bottoming out, the Federal Reserve is still under considerable pressure to implement an aggressive easing of monetary policy designed to accelerate recovery from the recession. Given the fact, however, that the Federal Reserve has lowered the federal funds rate by 250 basis points since mid-1990, it must be questioned whether another 25 or even 50 basis point cut will have a discernible impact on the economy. Often forgotten or overlooked in much of the discussion regarding the appropriate course for monetary policy is the fact that long-term interest rates, which have an important bearing on investment decisions and construction activity, are well beyond the direct control of the Federal Reserve.

While not ruling out another small reduction in the federal funds rate to 5.5 percent, we believe that for all intents and purposes, short-term interest rates are now at their lows for this cycle. At the long end of the market, meanwhile, the forces that have held bond yields in a narrow trading range since February are unlikely to dissipate anytime soon. Consequently, we are forecasting that the yield on long-term Treasuries, presently in the neighborhood of 8.30 percent, will continue to fluctuate in the 8.10-8.50 percent range through the rest of the year.

Looking beyond the current recession, we see a muted and narrowly based recovery that for many companies and individuals may be virtually indistinguishable from the downturn. The reason can be found in the following list of factors that are likely to constrain the economy's growth pace over the next year or so:

- a weak job market and limited gains in real disposable income;
- the lack of pent-up demand for houses, automobiles, and other big-ticket items;
- the sizable overhang of excess commercial space;
- the slow and cautious rebuilding of inventories;
- the availability of credit may be less than that experienced in previous economic expansions; and,
- the persistence of massive fiscal problems at all levels of government.

The negative impact of these forces is reflected in our forecast of a well-below average first year recovery in real GNP. Our forecast which calls for a mild 2.0 percent advance in real GNP compares with an average of 6 percent in previous first year post-World War II recovery periods. In sum, the recession may be drawing to a close, but the U.S. economy is still a long way from regaining a path of vigorous, noninflationary expansion.

Stuart G. Hoffman, Senior Vice President and Chief Economist, PNC Financial Corp., Pittsburgh, Pennsylvania.

This 1990-1991 recession has followed a classic "three C" pattern. The recession was preceded by a sharp drop-off in Construction spending. The recession itself was caused by a decline in Consumer spending. Finally, the tail end of this recession is now seeing a fall in Capital spending by business. An ongoing reversal of this progression suggests late 1991 through 1992 will be a recovery period — albeit a fairly weak one. Construction of new homes has just recently begun an upswing. Consumer spending is reviving this spring from the autumn/winter declines and is poised for continued gradual improvement. Finally, Capital spending will remain weak for the balance of 1991 but should turn up in 1992 in typical belated fashion.

For a timely signal of economic recovery, we are watching the following seven indicators: 1) M2 growth, 2) commodity prices, 3) unemployment insurance claims, 4) stock prices, 5) auto sales, 6) *Business Week's* production index and 7) bond yields. When at least five of these variables are in "recovery territory", our judgment is that an economic recovery is underway or imminent. As of late May, only three of these seven indicators were signaling recovery (up from two for the past several months) which suggests that the recession will *not* end this quarter. We continue to look toward the summer quarter as the "bottoming-out" period for the economy. If correct, several more of these indicators should be signaling recovery by July or August.

Payroll jobs rose slightly in May for the first time since June 1990. Revised jobs data show that the job loss was even greater than initially estimated during this recessionary period. May's industrial output and retail sales should record solid gains, in part due to unusually warm and dry weather. Yet, it is premature to conclude that *one* good month heralds the end of the recession. Jobs could decline and the unemployment rate could rise for the next several months even if recovery is taking hold. Jobs fell in the first quarter of recovery following six of the the last seven recessions. In summary, the end of the recession is in sight, but the forthcoming business upturn will be a "two steps forward, one step back" recovery process.

Fed policy will remain aimed at a 5.75 percent Fed funds rate for many months to come. Recent economic data reduces

the odds of a further dip in the funds rate but it is much too premature to talk of a Fed-engineered hike in short-term interest rates. The Treasury bond market is suffering from a bad case of "recovery fever". Yields have risen to near 8.5 percent on the fear that recovery will bring higher inflation. This anxiety is overblown. The bond market's sell-off represents a buying opportunity for value-oriented fixed-income investors. Intermediate-term Treasury securities in excess of 8 percent offer good value relative to our expected 4 percent inflation rate for the next several years. Rising bond yields will soon mean higher mortgage rates approaching 10 percent. This could snuff out the nascent recovery in home buying and building.

Bernard M. Markstein, Senior Economist and Vice President, Meridian Bank, Reading, Pennsylvania.

The recession that began in July 1990 is drawing to a close. There is growing evidence that the economy has either already bottomed or is in the process of doing so. Housing construction which was in a slump throughout 1990 reached its low in January and is now exhibiting signs of recovery. Recent strength in retail sales suggests that the decline in consumer spending is over. Finally, industrial production is showing indications of revival.

However, the ensuing recovery promises to be lethargic compared to previous post-World War II expansions. No engine for growth is evident. First, monetary policy has been constrained by choice. Historically, the Federal Reserve has moved to ease credit conditions during economic slowdowns. Frequently, as recessions have progressed, the Fed has overreacted, pumping excessive liquidity into the system. The result was robust growth as the monetary stimulus continued to exert its influence well into the recovery phase. That stimulus often laid the foundation for later inflationary problems. This time around, as in the past, the Federal Reserve provided liquidity to the banking system as data accumulated indicating that a slowdown/recession was in progress. However, unlike other times, the Fed took a more cautious approach in its easing, avoiding a panic reaction to current events. Thus, after a drop in the Federal Reserve discount rate to 5.5 percent in late April, the Fed moved to a neutral stance. If, instead, the Federal Reserve actions had followed the pattern of previous times, the Fed would have continued to ease credit well into the early stages of recovery. As a result of the Fed's conservative approach this spring, there is only modest monetary stimulus to move the economy forward.

Second, fiscal policy has been constrained by necessity. In previous downturns, it was only when the economy was well into the recession that Congress felt the need to act. The combination of the legislative process and the logistics of putting a new program into place would virtually guarantee that the fiscal stimulus did not reach the economy until the recovery was well underway. This time, however, despite Congressional desire to enact such programs, the budget deficit together with the budget agreement have prevented these stimulative moves. In fact, with Federal fiscal policy providing little additional stimulus, and the woes of state and local budgets producing tax increases and budget cuts to correct those problems, the net effect on the economy has been fiscal drag.

Third, the consumer, who actively led the recovery out of recession in 1981-82, seems less prepared for the task this time. Household balance sheets have relatively high levels of debt, while one major asset, housing, has depreciated. Further, the shift in demographics as the baby-boom bubble ages has reduced the traditional stimulus from home construction.

Finally, exports, which have been the one bright spot throughout the recession, are unlikely to provide significant stimulus in the coming year. A number of our trading partners are currently in recession, and the economies of many others are slowing. The recent strength of the dollar in foreign exchange markets will make export growth that much more difficult.

There appears to be enough potential stimulus in the economy to serve as a basis for some expansion. As employment increases (May employment rose for the first time in 11 months), personal income will rise, albeit slowly, and spending should increase gradually. Compared to the typical post-World War II recovery, this expansion will be modest and will be particularly susceptible to negative shocks. However, even a modest expansion is preferable to the recession we have been experiencing.

Joel L. Naroff, Chief Economist, First Fidelity Bancorporation, Philadelphia, Pennsylvania.

With the recession ending, the central question is how robust will be the economic recovery? The consensus forecast is that the rebound will be much weaker than average with the economy growing by only 2.5 to 3 percent. In comparison, in the first year after a recession, GNP usually surges by about 5.5 percent. However, it would not be surprising to see economic activity somewhat stronger than most economists are predicting. Yet even if GNP growth exceeds consensus forecasts over the second half of 1991, there is a possibility that the economy could fall back into recession in 1992.

The case for an expansion considered meager when compared to typical past recovery periods is compelling. There have been three years of fairly restrictive monetary policy that six months of average money growth will not overcome. Also, the Federal Reserve Board has worried so much about easing too aggressively that they may have stopped lowering rates before the trough in economic activity was reached. In the past, the Fed continued to lower rates for about two months after the upturn started, which added to the expansion. This monetary push will not occur in this recovery.

Monetary policy is not the only, or necessarily the most important, villain in the slow rebound scenario. In the past, the federal government reacted to a recession by expanding spending, particularly on public works projects. These projects rarely got underway during the downturn, but they did help accelerate the recovery. Now, we have a budget process that has prevented any expansionary spending. Further compounding the problem, state and local governments are raising taxes and cutting services, restricting the ability of government to raise economic growth.

The problems are not limited to the public sector. Debt burdens of business and households remain at historically high

levels, and limited expansion of credit demand may constrain growth in output and consumption. Financial institutions are still weak and they are taking a more conservative view of supplying credit. The problems in the commercial and residential real estate markets must be worked out before this major engine of growth can kick in. Maybe most importantly, as economies around the world decelerate, the level of U.S. export growth will ease, reducing the large positive impact that trade has had on the economy. All of these factors seem to imply a lackluster recovery.

Is it possible that the recovery could be better than expected? The mathematics of GNP accounting make it extremely difficult to have the recovery most economists forecast. GNP growth is measured in terms of percentage changes on a quarter-to-quarter annualized basis. Thus, moderate changes in one three-month period become magnified when viewed as if they occurred for an entire year. For example, auto sales should be about 6 million in the second quarter of 1991. This is a depression for Detroit. If sales rise to 6.5 million in the third quarter, still a terribly low level, it would amount to an 8.3 percent increase over the quarter but a 38 percent increase when annualized. It is this 38 percent increase that goes into GNP growth.

The problem here is the confusion between levels of economic activity and changes in those levels. GNP growth is just that, a change in output. Even if the level of economic activity remains low, it would be easy to reach 4 percent GNP growth in either the third and/or fourth quarter of 1991. This would not imply that there is a high level of demand in the economy, but the rate of growth would surprise a large number of people. It should not.

Even if output expands faster than expected in the second half of 1991, the long-term staying power of the recovery is still in question. None of the negative factors facing the economy will have gone away with a somewhat stronger than expected rebound. Instead, interest rates could rise through the end of the year. Indeed, in a typical recovery, rates rise for about six months after the trough. If long-term rates move toward 9 percent and mortgage rates rise above 10 percent, the residential real estate market, which has begun to stabilize, could face further problems. Higher interest rates could further reduce already low levels of investment spending. With an economy that has few strong industries, any momentum developed early in the recession could be lost by mid-1992. The threat then would be a second recession. Attention must be paid to this scenario.

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